

Non-paper The Netherlands

Customs simplifications and IOSS applicable on onward individual parcel sale to consumer after bulk storage in a customs warehouse.

1. Introduction and policy objective

Over the last years the volume of parcels that are being shipped from businesses to consumers (hereafter: e-commerce, B2C)¹ crossing the borders of the European Union has increased enormously. For Dutch Customs this roughly results in 3-3.5 million parcels a day, this is over 40 per second 24/7. Customs Authorities in many countries are struggling with the enormous flow of e-commerce goods.²

Customs, market surveillance authorities and numerous consumer organizations in the European Union have repeatedly found that there are very many products coming in that do not meet European product (safety) and consumer protection requirements. It is more difficult to enforce EU regulation on businesses that are established outside of the EU and return flows of the products coming directly from third countries are virtually uncontrollable. This leads to an uneven level playing fields for businesses within and outside of the EU. Specifically, this uneven playing field also manifests itself in the partial lack of a liable person in the EU for these products, often resulting in no economic operator being held accountable for non-compliance with EU product requirements. Moreover, the extended producer responsibility, aimed at financing collection and reuse and recycling of products, does not apply to these products purchased online, resulting in European entrepreneurs having to pay for them.

In the Working Party of Tax Question (Indirect taxation) of 6 November, we discussed the idea of creating a level playing field between the flow of individual parcels and bulk shipments.

At this moment, it is more favorable for businesses to use the channel of individual parcels, than the channel of bulk (e.g. import duties to be paid, extra cost and formalities for storage and customs clearance). The logistic chain has been optimized in such a way, that several businesses prefer to send daily freighter planes to Europe (containing individual parcels already sold and destined for EU customers/B2C) instead of containers by ship (containing bulk goods not sold to EU customers yet/B2B). More than 90% of all B2C e-commerce parcels are declared via the import-one-stop-shop (IOSS).

In the same Working Party of Tax Question the question was raised if just creating a level playing field is enough. The Netherlands are of the opinion that extra measures are needed to incentivize the warehouse channel.

2. What do we propose in the customs area?

¹ For the clarity of the discussion we limit in this note e-commerce to individuals parcel with a value of no more than euro 150, shipped directly to a consumer (BtoC)

² This is of course not only a VAT and Customs issue but touches on various areas of competence. For a good overview of possible ideas to make the flow of parcels more manageable see the attached German paper.

The starting point is the Technical Note WK 13552/2024 INIT as discussed at the Working Party of Tax Questions of 6 November. Based on that note the IOSS for VAT can still be used for the channel of individual parcels by mainly air freight. But at the same time we also introduce the use of IOSS in case goods in bulk are put in a customs warehouse (not in free circulation) and subsequently are sold from that warehouse to a final consumer (free circulation).

Secondly, part of the Customs reform proposal is the abolishment of the import duty threshold of 150 €. In the proposal the so-called 5 buckets system is introduced to simplify the levying on collection of import duties at the same time as the VAT via the IOSS. In order to make the channel of individual parcels less attractive, we suggest no simplification at all for custom procedures for clearance of individual parcels. So no 5 buckets system.

The Netherlands proposes to allow simplifications in the customs process for supplying non-EU products to EU consumers only for products sold from customs warehouses to consumers. We propose to introduce a new e-commerce custom warehouse procedure.

Upon entry, placing goods under the warehouse regime, and during storage, customs and market surveillance authorities can check the products if necessary. The simplified custom procedure is the release for free circulation from the customs warehouse without notification to customs and with monthly declaration. For calculation of duties the 5 buckets system or any other simplified system could be considered.

On products sold from the warehouse, the platform can collect import duties and VAT directly from the consumer upon sale, at the value for which the product is sold to the consumer. The platform can periodically remit these taxes to Customs and Tax Administration.

Because the goods are sold from an EU based customs warehouse there are many benefits. The consumer enjoys faster delivery (from an EU warehouse instead of from a third country) of a safer product (compliance to EU market requirements can be checked more efficient and effective by Customs and market surveillance authorities). Return flows are easier to handle in the warehouse model. Above all, an economic operator in the EU holds full responsibility for all legislation and this proposal increases economic activity in the EU.

3 Example both channels

Let us illustrate with an example. A consumer in a Member State would like to buy a t-shirt from a third country via a platform. This could be done through two channels: as an individual parcel directly shipped from a third country or through a customs warehouse located in the EU. We only describe the situation in case IOSS is used, the € 150 Customs duties threshold is abolished and the simplifications for placing goods into free circulation destined for consumers from customs warehousing is introduced.

3.1 Example air freight IOSS and no simplifications customs:

A consumer buys the t-shirt via a third country platform on 10-10-2030. VAT on the distance sale will be collected by the platform from the consumer at the time of the sale. VAT will then be declared by the platform via IOSS. The platform cannot declare the import duties upfront because there are no simplifications in place for an platform for the pre-collection of import duties at the moment of sale.

The t-shirt arrives by plane on 12-10-2030. At the border there will be an exemption for the IOSS VAT. At that moment import duties will be due and a regular import declaration (full dataset) is needed. This causes extra cost for the consumer of € 15-25 (import duties/handling and payment collections fee).

3.2 bulk customs warehousing IOSS:

A batch of 100.000 t-shirts has arrived in the EU from a third country via container on 10-08-2030. This batch is not in free circulation in the EU and is stored in a customs warehouse (B2B). A consumer buys the t-shirt via the same third country platform on 10-10-2030. Import duties will be collected from the consumer at the moment of sale. Also VAT on the sale from the Customs warehouse to the EU consumer (and VAT on the import duties) will be collected at the time of the sale by platform to the consumer. Import duties will be declared and paid periodically by the platform to customs , VAT will be declared by the platform via IOSS and are therefore not due at customs clearance. The t-shirt is sent directly from the customs warehouse as an individual parcel to the consumer (B2C). At the moment of outbound of the customs warehouse, the t-shirt is released for free circulation, preferably without further customs intervention.

4. Conclusion

The abolition of the import duty exemption for shipments from outside the EU of €150 leads to additional regulatory burdens at the border. In the customs reform package simplifications for import duty collection are proposed on these individual packages.

The Netherlands proposes not to allow these simplifications for the import of individual packages, but only to implement them for goods delivered to consumers from EU customs warehouses. As a result, the individual package flow will face more regulatory burdens due to import duty and tax collection, which will not be simplified, thus encouraging suppliers to deliver from EU customs warehouses.

This will reduce the volume of individual packages crossing the border, make the remaining package flow more manageable, and provide consumers with more rights when purchasing products. This approach also creates a level playing field with EU-based companies that supply products to consumers. Moreover, a person, economic operator, in the EU is full responsible for duties, taxes and other legislation applied by the customs authorities.

The current sales from online stores based outside the EU remain possible, but without the additional simplifications as proposed in the customs reform package. A business model most affected by this is the so-called fast fashion, from manufacturer to consumer. Here, consumers

order custom-designed products online, which are then produced in an Asian country and shipped to the consumer very quickly after ordering. This delivery cannot be offered from an EU warehouse.

4.1 The customs process on bulk customs warehousing IOSS and customs simplifications in short:

- After entry placing goods under customs procedure customs warehouse
- Customs and market surveillance authorities can check at moment of placement.
- Customs and market surveillance can check in customs warehouse during storage more efficient and effective.
- Customs debt incurs at moment of sale to the consumer, the customs value for release for free circulation is the final sales price to the consumer (drop-shipping valuation issues not at stake anymore)
- At outbound from the customs warehouse for free circulation import duties are waved, payment will follow periodically, similar to VAT IOSS.
- Release for free circulation at outbound of warehouse without notification to customs, (in line with implications for TCT).